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ACTION AF-06

INFO OCT-01 SS-20 NSC-10 NSCE-00 INR-07 CIAE-00 NSAE-00
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FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC 6877
INFO USUNT ALGIERS
AMEMBASSY BENGHAZI
AMEMBASSY LONDON
AMEMBASSY PARIS

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY [illegible] DATE 8/7/81
PORTIONS DENIED AS INDICATED

C O N F I D E N T I A L TRIPOLI 2203

LIMDIS

SUBJ: OCCIDENTAL POSTED PRICE SETTLEMENT

REF: TRIPOLI 2171

1. FROM TALKS WITH VARIOUS OXY REPS, IT HAS BECOME CLEAR THAT OXY-LARG AGREEMENT ON PRICES AND TAXES ACCOMMODATES MINIMUM INTERESTS OF BOTH PARTIES AND WE NOW HAVE BETTER UNDERSTANDING OF WHAT THESE ARE. FIVE-YEAR AGREEMENT IS EVIDENCE OF LARG'S RECOGNITION OF OXY'S RIGHT TO CONTINUE OPERATIONS IN LIBYA FOR AT LEAST THAT PERIOD -- A RECOGNITION WHICH HAD BEEN IN DOUBT SINCE 1969 REVOLUTION. RECOGNITION GIVES OXY FIVE-YEAR OPPORTUNITY TO RECOVER ESTIMATED $150-180 MILLION IN UNAMORTIZED INVESTMENT. AGREEMENT'S PROVISION FOR RESTORATION OF PRODUCTION TO 700,000 B/D MAKES RECOVERY OF INVESTMENT POSSIBLE, THEREBY IMPROVING COMPANY'S ABILITY TO SERVICE ITS DEBTS AND TO OBTAIN CAPITAL NEEDED TO DEVELOP PRODUCTION IN AREAS OUTSIDE LIBYA. IN RETURN FOR GIVING OXY LIMITED LEASE ON LIFE, LARG GOT 30 CENT PRICE INCREASE, ESCALATING TO 40 CENTS BY JAN 1975 PLUS RECOGNITION OF RETROACTIVITY AND CHANGE IN GRAVITY ALLOWANCE FORMULA FAVORABLE TO LIBYA'S HIGH GRAVITY CRUDE.

2. DETAILS OF OXY-LARG ACCOMMODATION ARE INTERESTING FOR WHAT

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THEY REVEAL OF LARG'S PROBABLE POSITION TOWARD OTHER COMPANIES AND OF LARG'S LONGER-RUN STRATEGY. ONCE CONVINCED THAT IT HAD TO CONCEDE AN ESCALATING PRICE INCREASE BEGINNING IN 25-30 CENT RANGE AND TO ACCOMMODATE RETROACTIVITY, OXY, AS FIRST COMPANY TO SETTLE, HAD OPTION OF MEETING LARG'S DEMANDS IN WAYS LEAST HARMFUL TO ITS INTERESTS. MOST DIFFICULT DEMAND FOR OXY WAS RETROACTIVITY, AND IT ALSO HAD UNIQUE PROBLEM ARISING FROM CONCESSIONARY OBLIGATION TO CONTRIBUTE 5 PER CENT OF "PROFITS" TO LIBYAN AGRICULTURAL DEVELOPMENT. OXY AMELIORATED AND ACCOMMODATED RETROACTIVITY DEMAND IN VARIETY OF WAYS -- BY AGREEING TO POSTING AT HIGH END OF LARG'S RANGE, BY NOT STRENUOUSLY RESISTING CHANGE IN GRAVITY ALLOWANCE FORMULA AND BY COVERING BOTH ITS AGRICULTURAL PAYMENTS PROBLEM AND TOKEN RETROACTIVITY PAYMENT IN TAX RATE INCREASE FROM 50 TO 58 PER CENT. AGRICULTURAL PAYMENT PROBLEM IS COMPLEX, BUT ESSENTIALLY INVOLVED CHANGE FROM CALCULATING 5 PER CENT DUE TO LARG ON BASIS OF REALIZED PRICES AND TREATING PAYMENT AS OPERATING EXPENSE, TO CALCULATION ON POSTED PRICE AND ELIMINATING EXPENSE TREATMENT -- WITH LATTER METHOD APPLIED RETROACTIVELY TO BEGINNING OF PRODUCTION. CHANGE IN CALCULATION OF AGRICULTURAL CONTRIBUTION RAISED EFFECTIVE TAX RATE TO 55 PER CENT AND PRODUCED BACK PAYMENT OBLIGATION OF ABOUT $18 MILLION. OXY ALSO TELLS US CONTRIBUTION NO LONGER EARMARKED FOR AGRICULTURE. THUS, OF 8 PER CENT TAX INCREASE 5 PER CENT REPRESENTS DEFERRED PAYMENT FOR BOTH PRICE AND AGRICULTURAL AGREEMENT RETROACTIVITY. AFTER ESTIMATING AMOUNT 3 PER CENT TAX WOULD PRODUCE WHEN APPLIED TO PRODUCTION OF 700,000 B/D OVER 5 YEARS AND DEDUCTING $18 MILLION ATTRIBUTABLE TO AGRICULTURAL BACK PAYMENT, EMBASSY CONCLUDES OXY AGREED TO MAKE POSTED PRICE INCREASE RETROACTIVE TO JAN 1970, WHICH WOULD ENTITLE LARG TO ABOUT $27 MILLION.

3. [redacted] (S)

4. REPORTS FROM OXY ABOUT ITS NEGOTIATIONS SUGGEST LARG WILL NEGOTIATE TO APPLY IDENTICAL POSTED PRICE TERMS AND GRAVITY ADJUSTMENT

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FORMULA TO OTHER PRODUCERS, BUT THAT RETROACTIVITY AND ANY UNIQUELY BILATERAL ISSUES ARE AREAS FOR SOME FLEXIBILITY AND ACCOMMODATION THROUGH DEVICES SUCH AS TAX RATE ADJUSTMENT. OXY SAYS LARG NEGOTIATORS WERE UNINTERESTED IN INITIAL PRICE INCREASE ABOVE 30 CENTS --- WHICH OXY OFFERED IN LIEU OF RETROACTIVITY. WE ARE UNABLE TO EXPLAIN THIS REPORTED REACTION, BUT 30 CENT MAXIMUM MAY TIE TO SOME UNDERSTANDING LARG HAS WITH ALGERIA, ORI TO LARG'S ESTIMATE OF WHAT OTHER COMPANIES WILL BEAR. OXY ALSO INTERPRETS LIBYAN STRESS ON LIMITING AGREEMENT TO FIVE YEARS, AND FULFILLMENT OF ALL FINANCIAL OBLIGATIONS WITHIN THAT TIME, AS INDICATIVE OF LARG ESTIMATE THAT IT WILL BE READY, AFTER FIVE YEARS, TO CHANGE STRUCTURE OF PRESENT CONCESSION AGREEMENTS --- PRESUMABLE IN DIRECTION OF SERVICE CONTRACTS.

5. OXY CAUTIONS, IN LIGHT OF PUBLICITY GIVEN TO RESTORATION OF ITS PRODUCTION, THAT OTHER PRODUCERS SHOULD NOT ANTICIPATE COMPARABLE TREATMENT. WHILE IT WOULD BE IN OXY'S INTEREST WHEN RENEGOTIATING ITS CRUDE OIL SALES CONTRACTS TO HAVE PURCHASERS DOUBTFUL ABOUT LIBYA'S PRODUCTION TARGETS, OXY CONTENDS, AND EMBASSY AGREES, THAT LARG'S CONSERVATION GOALS ARE PRIMARILY ECONOMIC AND SECONDARILY TECHNICAL, I.E., LARG AIMS TO HOLD OIL PRODUCTION TO LEVEL GENERATING APPROXIMATELY AMOUNT OF INCOME IT PLANS TO SPEND. OXY HAS BEEN LED TO BELIEVE BY LARG OFFICIALS, AND EMBASSY HAS BEEN TOLD IN PAST, THAT LARG'S CURRENT PLANS CALL FOR PRODUCTION OF ABOUT 3 MILLION B/D. SINCE OXY'S PRODUCTION BOOST, TOTAL OUTPUT IS ABOUT 3.15 MILLION B/D, WITH BP/HUNT STILL TO BE ASSIGNED PRODUCTION ALLOWABLE. SOME FURTHER PRODUCTION INCREASES MAY BE PERMITTED AS OTHER COMPANIES REACH PRICE SETTLEMENT, BUT THESE ARE UNLIKELY TO BE AS SIGNIFICANT AS WAS OXY'S AND ARE UNCERTAIN PROSPECT.

6. SO FAR LARG NEGOTIATORS HAVE PURSUED THEIR OBJECTIVES WITH CONSIDERABLE PATIENCE, BRINGING PROLONGED NEGOTIATIONS TO AN END BY DECREEING NEW PRICE LEVEL CANNOT BE EXCLUDED, BUT UNIQUELY BILATERAL FEATURES OF OXY AGREEMENT SUGGEST LARG MAY BE PATIENT AND PURSUE NEGOTIATIONS AWHILE LONGER TO GET, FOR EXAMPLE, MORE RETROACTIVITY FROM OTHERS THAN IT GOT FROM NEWCOMER OXY. LARG ALSO SEEMS TO HAVE GIVEN UP ITS EFFORT, SINCE VISIT IN AUGUST OF JERSEY STANDARD VP BIERCY, TO GAIN PRECEDENT-SETTING PRICE AGREEMENT WITH INDUSTRY LEADER ESSO. EMBASSY INFORMED FOUR OWNERS OF OASIS OIL COMPANY MET WITH NEGOTIATING COMMITTEE SEPT 12 AND WERE TOLD COMMITTEE DESIRED TO MEET, WITHIN SIX DAYS, REPS AUTHORIZED TO COMMIT COMPANIES TO NEW POSTED PRICE. WE DO NOT YET HAVE DETAILS OF POSITION

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LARG TOOK WITH OASIS OWNERS BUT ASSUME IT PARALLELS OXY AGREEMENT. LARG'S TACTICS SEEM TO BE TO SECURE AGREEMENTS WITH OTHER INDEPENDENTS AND SHELL IN OASIS SO THAT IT CAN CONFRONT ESSO AND OTHER MAJORS WITH GREATER CONFIDENCE. GP-4.
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